

Business Threats and Opportunities in the Western Balkans

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Edited by

Hristina Runcheva Tasev
and Elena Makrevska Disoska

Cambridge
Scholars
Publishing



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This book first published 2021

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

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ISBN (10): 1-5275-7502-0

ISBN (13): 978-1-5275-7502-8

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EDITOR'S NOTE

The current pandemic caused by the COVID-19 virus has affected economies around the globe and highlighted the interdependence of the global risks. For sure it will reshape the world we live in. The risk of a prolonged recession of the global economy will have far-reaching social, environmental, and technological implications. Society is facing public health fears, high unemployment rates, and increased poverty. The pandemic has brought many challenges for governments and the private sector, but it has also created new opportunities and ways to build back better. The organizational aspects of enterprises, changes in consumer behavior, the rise of the informational technologies, and the expansion of the digital market can create economic growth based on lower carbon consumption and sustainable growth based on green and clean solutions. The length and depth of the current economic crisis will depend on a combination of effective policies, incentives, and management systems that can balance the protection of public health and economic well-being.

This book offers readers a comprehensive outlook on the expected long-term changes, inspiration for decision-makers, and ways to leverage the opportunities of this pandemic, even though the articles were written before the beginning of the pandemic. The articles present issues related to entrepreneurship, digitalization, labour market incentives, non-standardized financial metrics for measuring business performance, techniques to improve customer satisfaction, digitalization and machine-learning algorithms, employee satisfaction, and energy consumption. In general, all the issues address the challenge of increasing the competitiveness of European companies and therefore the competitiveness of countries. The book presents economic problems and their possible solutions from the standpoints of researchers in Europe. In particular, I would like to point out the following questions:

1. *How can new opportunities rise for businesses in times of turbulence and consumer behavior changes?*

- The emergence of new business models will encourage new ways of extracting and sharing value from information. Such an ongoing business and economic context will clearly favor countries and

organizations that have the capacity to mobilize relevant entrepreneurial talents.

- Use new techniques, such as data extraction techniques, that support the extraction of different representations of knowledge from such large databases, such as machine-learning algorithms.
- Abolishing administrative procedures, reducing corporate levies, and creating an atmosphere of legal certainty can improve the business and investment climate while fostering scientific and entrepreneurial cooperation can simultaneously strengthen the technological readiness of the economy to apply new knowledge to the creation of innovative products and services, all of which will foster and contribute to innovation and competitiveness performance.
- Improve the measurement of business performance by using new financial metrics; for example, non-standardized financial metrics in the analysis of cost and management of the companies.
- Customer satisfaction plays a crucial role in sustaining and increasing the market share of companies and expanding the customer base.
- In order to choose a quality strategy, it is necessary to consider the situation on the European market. Countries that are not members of the EU can attract European tourists by developing so-called medical and dental tourism, with combination of the spa tourism due to the high costs of medical treatment in these countries.

2. How can businesses best use human capital potential?

- Firms should try to implement more innovative recruitment methods and channels to increase their applicant pool and improve their organizational image on the labor market. A proactive and targeted approach to training and extensive training is also a way to create a competitive base of cutting-edge multidisciplinary skills within firms.
- Entrepreneurial talent should be seen as a state of mind that can be developed, enhanced, and nurtured with a mix of policies, incentives, and management approaches that need to be tailored to the specific context of individual countries.
- The better the assessment of the employees' motivation, career development, training, and internal communication ability, the more they were satisfied with their work, earnings, and the possibility of career advancement.

3. How to achieve sustainability growth with low-carbon emissions?

- A direct connection between the degree of digitization, efficiency, and financial parameters in product development can be established. A high degree of digitalization results in cost savings and shorter project lead times.
- European countries are diverging in primary energy consumption per capita and need to pursue policies to make their primary energy supply more stable.

It is certain that new business and employment opportunities are being created in sectors such as telecommunications, informational technologies, and digital market, but a greater dependence on technology has also increased cyber security risks. Numerous academic studies and indications from practice have pointed to the need to find ways to detect fraud early to prevent the negative effects that may arise for decision-makers.

These are some of the perceived problems and proposed solutions from the standpoint of the European researchers. I believe that this book will be an inspiration and open new perspectives for the policy makers, business community, and academics since the current crisis emphasizes the urgent need for effective actions.

Finally, I would like to thank all of those engaged in the process of research, selection, and publishing of this book for their effort and devotion.

Prof. Hristina Runcheva Tasev

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CHAPTER ONE

DETERMINANTS OF EMPLOYEE SKILLS' LEVEL AND UTILIZATION IN SMEs IN THE REPUBLIC OF NORTH MACEDONIA

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Abstract

Recent research shows that continuous skill upgrading is paramount to achieving competitiveness and sustainability for individuals in the labour market and firms. Due to the dynamic business changes, firms expect higher levels of creativity, innovation, and initiative from their employees, hence ensure that they possess cutting-edge knowledge, skills, and abilities. Nevertheless, firms cannot capitalize solely on employees' skills i.e., the full utilization of employees' skills is necessary to achieve competitiveness. Thus, the determinants that influence the level and utilization of employee skills are crucial for firms as well. In this paper, the recruitment process and training are recognized as factors that affect skill level whereas the methods of motivation determine skill utilization.

The results of the empirical analysis on a sample of SMEs in the Republic of North Macedonia indicate that the challenges firms face during the process of recruitment pertain to the lack of applicants' skills and the small number of applicants. Also, almost 60% of the firms either announce only primary vacancy requirements or, although thoroughly

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defined, do not include the requirements in the vacancy announcement. As for the upgrading of skills, about 50% of the firms had organized one to three training sessions in the last three years, mainly pertaining to the improvement of job-specific skills of primary employees. Almost one-fifth of firms had not organized any training.

The motivation methods are highly important not only to boost employees' willingness to upgrade their skills but also to fully utilize them in their working activities. The findings indicate that more than half of the firms motivate their employees by providing bonuses and rewards, and by taking employees' opinion into account. An additional motivating factor refers to employee participation; in particular, including employees in the process of new product/service development.

Keywords: *employee skills level, skills utilization, skill determinants, recruitment, training, motivation*

1. Introduction

Human capital is a focal point in today's economy. Human resources can contribute to a firm's competitive advantage only if they possess high levels of knowledge and skills, have sufficient motivation, and the means to participate in achieving organizational goals. In this regard, firms should create an overall management philosophy, specifically covering human resource policies and practices, to support the use and development of employees' skills in order to maximize the benefits of their human capital.

The global trends that have emerged in the last decades, such as mass digitalization and a wider use of technology, tight competition as a result of globalization and deregulation, more sophisticated customer demands, and the growth of the service sector, have imposed dramatic changes on business processes and working methods. Hence, firms have upgraded their business processes, changed their organizational structure to achieve higher flexibility, and redesigned many jobs within their organizations. Subsequently, this has imposed new skill requirements for employees and to meet them, employees should possess a complementary set of cognitive and non-cognitive skills and be able to deal with non-routine activities in unpredictable situations.⁴ At the same time, they should be able to comprehend new ideas and concepts and adjust quickly to changes.

⁴ OECD, *Skills for Jobs*, 2018,

Global market changes, as well as the changes in the way business operations are conducted, have put knowledge and skills at the centre of corporate policies and increased the importance of employees' skills level and utilization. This has imposed a need for firms to redesign their human resource strategy and shift their focus to creating high skill levels among employees through the recruitment and selection process and intensive training and on identifying ways to utilize these skills more effectively. This paper discusses the determinants of employee skill levels and utilization and analyses these determinants in SMEs in the Republic of North Macedonia.

2. Determinants of skills level and utilization

Research has confirmed the importance of human capital for the performance of firms in terms of higher productivity, higher innovation, more profit, and better overall results as well as increased market competitiveness. Nevertheless, human resources can contribute to achieving organizational goals and increasing the market competitiveness of firms only if certain preconditions are met. First, employees should possess adequate skills levels. Second, they should be highly motivated to use their discretionary efforts or give their best, and third, they should have the means or opportunity to use their skills.⁵ The mass digitalization, continuous technology improvements, redesigned business processes, growing competition, and customer orientation of firms have imposed new requirements for employees' skills. To meet these requirements, employees should possess a complementary set of job-specific, soft, digital, and entrepreneurial skills. Firm-level needs for specific employee skills depend on several factors such as the industry, long-term and short-term organizational goals, business strategy, the firm's technology development, competition, and so on. With the rising importance of human capital, building a sufficient pool of advanced skills has become one of the priorities of firms today. Thus, firms continuously strive to sophisticate their recruitment process and use cutting-edge selection methods while focusing their human resource strategy on upgrading their skills bases through systematic employee training programs.

[<https://www.oecdskillsforjobsdatabase.org/methodology.php>]

⁵ Appelbaum, Eileen, Thomas Bailey, Peter Berg, Arne L. Kalleberg, and Thomas Andrew Bailey. *Manufacturing Advantage: Why High-Performance Work Systems Pay Off*. Cornell University Press, 2000.

Creating a firm's skills base alone does not add value to the firm. To maximize the potential value of a competitive skills base, employees should use these skills for organizational goals. In this regard, employee knowledge, skills, and abilities (or the human capital) should be "effectively used to achieve a competitive advantage."⁶ Also, this transformation from human to intellectual capital is mainly dependent on the context in that companies should create a supportive environment that will enable the upgrading, utilization, and exchange of knowledge.⁷ Therefore, creating appropriate conditions for skill utilization is as important as building those skills. Firms should create an environment, i.e., develop methods and mechanisms, that will encourage and enable employees to apply their knowledge and skills. Hence, developed motivational methods and employee participation mechanisms are essential elements in creating an organizational environment that supports skill utilization.

2.1. Determinants of skills level

Recruitment and training are considered to be the main determinants of the skill levels of employees in a firm as they directly affect the firm's skills base. In the human resource management literature, there is still debate on whether creating a firm's skills base should be through external recruitment or intensive employee training. However, these are not mutually exclusive. In reality, these determinants co-exist to build the necessary pool of knowledge and skills. On one hand, a successful recruitment process enables firms to select the candidate who possesses the required set of skills, and on the other hand, proactive employee training enables firms to meet their current and future skill requirements.

The recruitment process is especially important for jobs that require highly specialized skills as well as in the sectors that are technologically advanced and in firms that have innovative processes. As the complexity of the workplace increases, so does the difference in employee performance, which is closely related to the individual's ability, skills, knowledge, and experience. It is for these reasons that companies strive to

⁶ Youndt, Mark A., Mohan Subramaniam, and Scott A. Snell. "Intellectual capital profiles: An examination of investments and returns." *Journal of Management Studies* 41, no. 2 (2004): 335–361.

⁷ Swart, Juani. "HRM and knowledge workers." In *The Oxford Handbook of Human Resource Management*, edited by Boxall, Peter F., John Purcell, and Patrick M. Oxford: Oxford University Press, 2007.

attract and retain employees who have the competencies required to increase the firm's performance and achieve a competitive advantage.

The recruitment process is mainly dependent on, but also directly affects, the quantity and quality of applicants, and thus the potential human capital of the firm. The success of the recruitment process depends on several factors, including the ability of the firm to determine the required employee profile and identify different methods and channels for attracting applicants as well as the firm's organizational image and its labour market power. Probably the most important organizational aspects that directly affect the success of the recruitment process, and especially the quantity and quality of applicants, refer to determining the appropriate candidate for the job, identifying crucial requirements in the vacancy advertisement, and identifying recruitment channels to attract applicants. A detailed job and needs analysis is the first step in profiling a suitable candidate. By determining the requirements in this way, the required skills and the desired behavior of the potential employee are accurately identified. Therefore, job analysis and needs assessment are inevitable aspects in determining the required profile as well as the cognitive and non-cognitive skills that applicants should possess. In addition, this process enables the firm to adequately identify the vital requirements in the vacancy advertisement and determine the appropriate recruitment channels.

The appropriate definition of job criteria in advertisements is especially important for the successful attraction of candidates who have the necessary skills and abilities and also possess the identified individual characteristics. According to Breugh and Starke,⁸ vacancy advertisements with specific information that emphasizes the attractiveness of the vacancy have a positive effect on the number of applicants in the recruitment process. In this context, the vacancy advertisement should highlight the most important requirements for the position as well as present the advantages offered by the firm. The former should improve the organizational image of the firm in the labour market, which is as important as the financial power of the firm to offer competitive salaries— aspects considered crucial for the firm's capacity to attract a large applicant pool.

⁸ Breugh, James A., and Mary Starke. "Research on employee recruitment: So many studies, so many remaining questions." *Journal of Management* 26, no. 3 (2000): 405–434.

The ability of a company to improve its organizational image affects both the quantity and quality of applicants in the recruitment process. Harrell-Cook and Ferris⁹ indicate that firms that do not have a good reputation in the labour market face more difficulties in attracting highly skilled staff, which directly affects the competitive advantage of the firm in the long run. Small and medium-sized enterprises should build their recruitment strategies based on their strengths and use a variety of recruitment channels to attract applicants with different profiles, especially in terms of age, experience, and personal characteristics. In this regard, SMEs should attract skilled applicants by emphasizing the aspects that are specific for this type of firm—the opportunity for dynamic and diverse work, greater employee involvement in the firm’s processes, flexible working hours, etc.

The recruitment process is a vital phase in creating a firm’s human capital; that is, the knowledge, skills, and abilities of a firm. Supported by continuous employee training, it would enable a firm to build and develop a competitive skills base, which is considered to be one of the prerequisites for sustainability in 21st-century business.

A strategic approach to employee training and development enables a firm to up-skill its workforce. This is especially important for skills that are not easily available in the labour market and yet are essential for firm’s competitiveness. These investments, in terms of type and intensity of training, depend on factors such as the firm’s goals and strategy, its specifics, the industry, and the organizational culture. A proactive approach to continuous training, however, enables a firm to anticipate future needs and build the necessary skill levels of its workforce.

New ways of doing business require not only extensive training in job-specific skills but also skills that would enable employees to change their traditional approach to work, become more flexible, and adapt easily to change. In this context, training improves employees’ skills and abilities and directly affects their performance. Research has confirmed the positive impact of formal training on productivity, profitability, product quality, market share, and sales.¹⁰ Nevertheless, human resource literature implies

⁹ Harrell-Cook, G. and G. R. Ferris. “Competing pressures for human resource investment.” In *Strategic Human Resource Management*, edited by R. S. Schuler and S.E. Jackson. Blackwell Publishers Ltd, 1999.

¹⁰ Bartel, Ann P. “Productivity gains from the implementation of employee training programs.” *National Bureau of Economics Research Series*. Working paper no. 3893, 1991. <https://www.nber.org/papers/w3893>; Hansson, Bo. “Company-based determinants of training and the impact of training on company

that employee training should not be comprehended as a series of interventions. In today's business context, employee training and development cover a wider concept since the requirements for employee skills change at a fast pace, imposing the need for their continuous development. A proactive approach to upgrading employees' skills will reduce the mismatch between the existing and required skills in firms in the long run. Those firms that implement employee training only to meet their short-term needs are more likely to face a skill gap that could hinder their very existence.

Eurostat's research¹¹ shows that 72.6% of firms in the EU conduct some type of training for their employees, which is a significant increase compared to 59.7% in 2005. Considerable differences are identified among firms based on their size; that is, small firms lag behind large firms in terms of conducted training. This is mainly due to the specifics of small firms such as the lack of human resource plan and budgets, lack of adequate training needs assessment, etc. In addition, small firms face more obstacles in implementing employee training as a result of limited financial power, higher training costs, and lack of information on training opportunities among others. Taking these obstacles into consideration, small and medium firms that cannot implement a continuous investment in employee training should seek alternative methods that will enable them to upgrade their employees' skills and maintain a competitive skills base.

2.2. Determinants of skills utilization

The intensive utilization of employee skills directly affects the potential benefits that firms can derive from their human capital. Firms can achieve this only through an adequate organizational environment that will support and encourage the efficient use of employees' knowledge and skills. Employee performance levels and, subsequently, their contribution to organizational goals are a result of a complex system that includes different levels of employee motivation, i.e., their willingness to contribute to a firm's goals, as well as differences in the context in which they work, i.e., the ability of the firm to develop appropriate mechanisms for greater

performance." *Personnel Review*, 2007; Kalleberg, Arne L., and James W. Moody. "Human resource management and organizational performance." *American Behavioral Scientist* 37, no. 7 (1994): 948–962.

¹¹ Eurostat. Accessed March 15, 2020.

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Vocational_education_and_training_statistics&oldid=464069

employee involvement. Thus, the conditions that firms develop to support skills utilization also determine the effects of the same. The motivation of employees to apply their knowledge and skills and the opportunity provided by firms to use these skills are considered to be the main determinants in the process of creating an organizational environment for skill utilization.

The motivational methods developed by firms determine the level of discretionary effort employees put into utilizing their knowledge and skills for the achievement of organizational goals. Therefore, it is paramount that firms offer various motivational methods that include both internal and external rewards. Aligning organizational goals with the individual interests and aspirations of the employees is essential for the success of these motivational methods. Compensation and rewards systems (for example, pay for performance, bonuses, profit/gain sharing), teamwork, employee participation, two-way communication and information, career development, job design (such as job rotation, job enrichment), job security, job autonomy, and self-management (through self-managed teams) are some of the most widely used methods for employee motivation. Indeed, research has shown, especially in the last two decades, that there is a close connection between these methods and organizational performance. In fact, companies that show high organizational and market performance have incorporated these methods into their human resource management strategy.

The complexity of the motivation process is reflected in the necessity to create a developed system of different methods that positively affects employee levels of motivation. This is primarily due to the fact that employees expect both external and internal rewards that are consistent with the perception of individual contribution and performance. Individuals are motivated by financial rewards, additional benefits, status, job security, job satisfaction, the opportunity for career development, job decision-making autonomy, recognition, acknowledged contribution to the overall organizational goals, and so on. These aspects have different impacts on the overall employee motivation.

In addition, employee participation is central to skills utilization and, along with motivational methods, provides the required organizational context for the intensive utilization and free flow of knowledge and skills. In fact, employee involvement mechanisms are also some form of motivational methods, i.e., they are closely related to them. Employees will not be motivated to apply their skills when performing an activity or overcoming a problem if they are not “heard” by the management. So,

employee participation is a crucial element in the equation of skills utilization.

Depending on the national, industrial, and organizational context, firms develop different methods for employee participation, ranging from informal mechanisms to systematically developed systems where employees participate equally in the decision-making process, thus providing incentives for the full utilization of their knowledge, skills, and abilities. Employee participation includes a variety of methods, such as a vertical communication system, where 'bottom-up' communication is as important as 'top-down' communication, self-managed teams, quality control cycles, etc. These methods and techniques are particularly important for firms that operate in dynamic, fast-growing industries and those that implement an innovation strategy. In fact, the possibility for greater employee involvement is much higher in small and medium enterprises, due to loosely defined roles and job descriptions and a flatter hierarchy, as opposed to large firms. In fact, SMEs should use this advantage to develop an efficient employee involvement system. Adequately implemented employee participation systems will provide these firms with multiple benefits, including greater skills utilization, an organizational culture based on cooperation, learning and advancement, and a better organizational image that could strengthen their labour market position and subsequently increase their ability to attract applicants with the right skills.

Developed motivational methods and employee participation mechanisms, as determinants of skills utilization, provide twofold benefits for firms. First, firms will have positive effects from their investments in their human capital (those made by the recruitment process and the employee training), and second, these mechanisms will enable employees to utilize their knowledge and skills and achieve organizational goals.

3. Methodology

The objective of this paper is to assess the methods and mechanisms most frequently used by small and medium enterprises in the Republic of North Macedonia that determine and increase employee skill levels and utilization. A survey questionnaire was distributed to business owners or senior managers of private firms in different sectors in North Macedonia. The questionnaire included aspects pertaining to different factors that determine the level and use of employee skills in a firm. Hence, aspects of the recruitment process, employee training, and motivational factors, including employee participation, were part of the questionnaire.

Lack of skills can often be the result of inappropriate recruitment practices in terms of hiring inappropriate applicants for certain jobs, low labour market power, or the inability to identify and attract the appropriate candidate. In addition, employee training, if not implemented continuously or in line with a firm's present and, even more importantly, future needs, will not generate the anticipated results. Also, a variety of developed motivational techniques is a main prerequisite to achieve the full utilization of employees' skills. Therefore, the questionnaire covered different aspects of the recruitment process, employee training, and motivational techniques implemented in firms. Such an analysis will produce in-depth knowledge of the methods and mechanisms used by SMEs in North Macedonia and highlight the biggest impediments to the process of creating a skills base and developing an organizational context that would maximize skill utilization.

4. Results

A sample of 133 SMEs was included in the analysis, out of which 37% were micro, 43% small, and 20% medium enterprises. Most of these firms (78.2%) operate in the domestic market and have been active in the market for more than 5 years. In fact, 40% of the firms have existed for between five and ten years, and 49% for more than ten years. A total of 51% of the survey sample are firms that offer services, while 26% are in production, and 23% in trade.

The results of the empirical research show that one of the greatest challenges for firms in the recruitment process is the number of applicants for a job vacancy. About 35% of the firms have an average number of applicants for a vacancy, while almost 19% attract an insufficient number of applicants during the recruitment process (Figure 1-1). There are several reasons for the dearth of potential applicants for a vacancy: for example, a lack of interest in a specific position, industry, or firm, then the firm's weak labour market power, and so on.

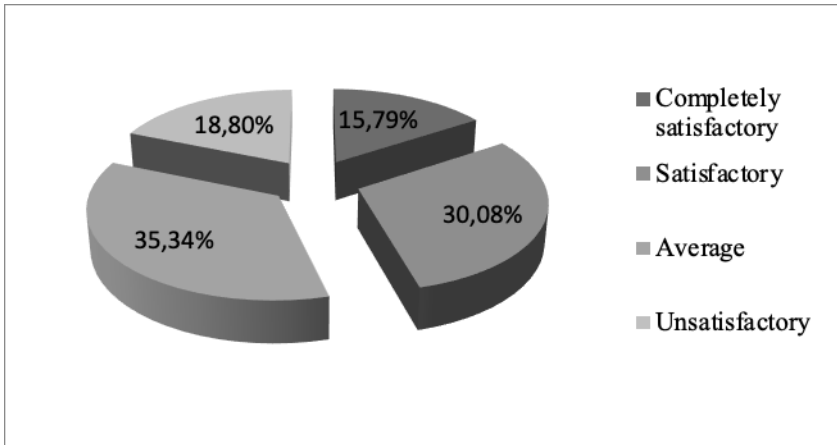


Figure 1-1. Number of applicants for vacancy, % of firms

Few applicants for a job can also be the result of inappropriately specified requirements. Namely, the quantity and quality of applicants for a vacancy are often related to the job requirements specified in the advertisement. A lack of information or ill-defined requirements in the advertisement can result in lack of applicants for the vacancy; it can also produce a reverse effect such as a huge number of applicants whose knowledge and skills do not correspond to those needed for the job. This will not only impede the recruitment process but also result in time-consuming, costly, and often unsuccessful recruitment. Therefore, companies should clearly and thoroughly define the required skills for the specific position and publish them transparently.

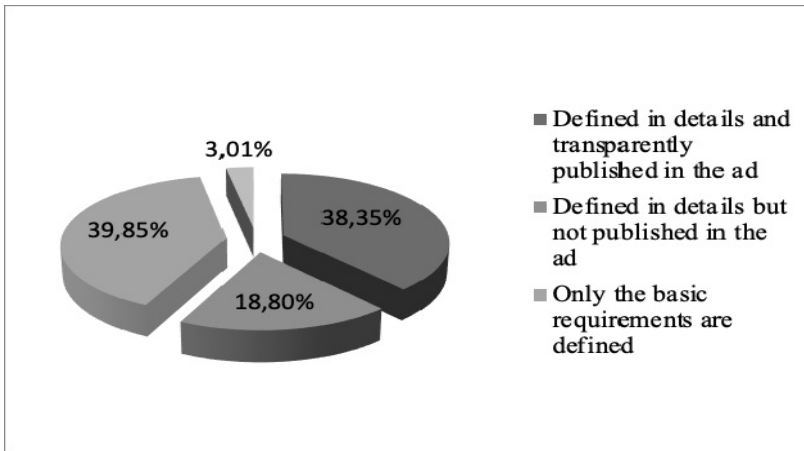


Figure 1-2. Skills requirements in job advertisements

However, only about 38% of the firms define skills requirements in detail and publish them transparently. A significant share of almost 40% of analysed firms define only the basic requirements for the vacancy (Figure 1-2).

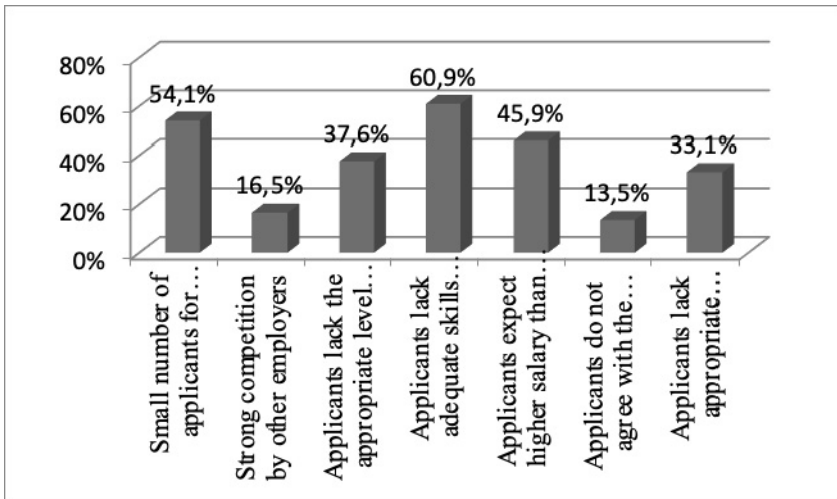


Figure 1-3. Main recruitment barriers, % of firms

Taking into consideration the above, it comes as no surprise that one of the biggest challenges faced by firms is the lack of adequate skills for a specific vacancy among the applicants. In fact, more than half of the analysed firms indicate few applicants (54.1%) and lack of skills (60.9%) as major obstacles in the recruitment process (Figure 1-3). Some of the reasons for these recruitment impediments are labour market skill mismatch as well as the firm's inability to appeal to adequate applicants. Also, for about 46% of the firms, their lack of financial power, reflected in non-competitive salaries, also imposes difficulties and undermines their labour market power, hampering their appeal to adequate applicants. Firms should, therefore, offer alternative methods and techniques to attract skilled applicants such as more employee involvement in decision making, career development opportunities, professional growth, flexible working time, etc.

Recruitment barriers considerably undermine the process of building adequate skill pools in firms and directly affect firms' human capital and their subsequent performance. This highlights even more the importance of continuous employee training in firms. A systematic and proactive approach to employee training would compensate for the drawbacks derived from the recruitment process, strengthening firms' skills pools.

Employee training is another determinant of the level of employees' skills. In this context, the frequency of employee training offered by firms is very important for up-skilling and acquiring skills that are aligned with firms' present and future needs. The results show that about 50% of firms conducted one to three training courses in the last three years, while one-fifth of the firms did not offer any training to their employees (Figure 1-4).

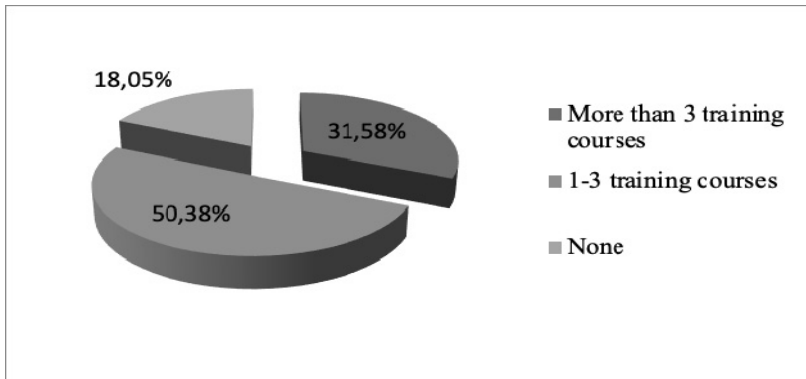


Figure 1-4. Frequency of conducted training, % of firms

Additionally, the majority of the firms organized training for their core employees (those who perform activities closely related to the core business) whereas less than half organized training to supporting employees (those who perform supporting activities to the core business) and managers (Figure 1-5).

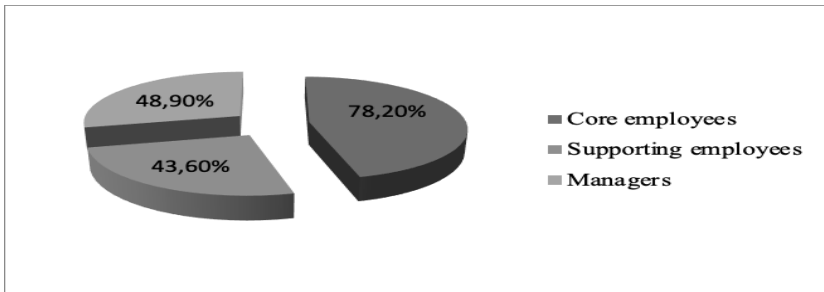


Figure 1-5. Employees for which training was conducted, % of firms

Training courses were mainly conducted to upgrade job-specific skills (36% of the firms conducted such training). Some of the firms organized training on digital and entrepreneurial skills, and an insignificant percentage of firms organized training on soft skills as well (Figure 1-6). These findings are consistent with other studies in this area, which conclude that small and medium enterprises do not invest much in employee training as opposed to large firms. This could be for several reasons, some of which are due to the specifics of such firms. Nevertheless, investment in human capital is a primary prerequisite for competitiveness today, and with the rapid changes in the markets and the way business is conducted, continuous training provides firms with the necessary skills to meet current and future targets and goals.

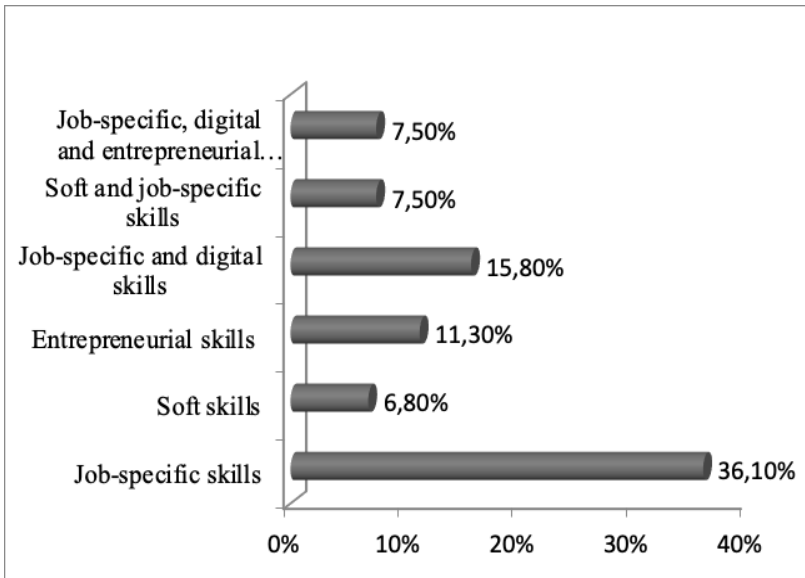


Figure 1-6. Type of training provided, % of firms

However, firms can only benefit from their human capital through an intensive utilization of their knowledge, skills, and abilities so it is crucial that they create appropriate conditions. Employees should be motivated enough to apply their knowledge and firms should ensure they have the opportunity to use it for the benefit of the firm. So, the main determinants of employee skill utilization are, in fact, the motivational methods and employee involvement mechanisms developed by firms.

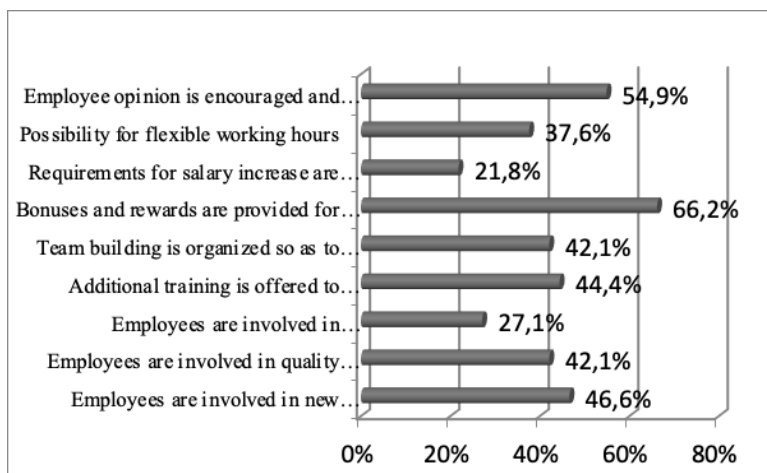


Figure 1-7. Motivational methods implemented by firms

Small and medium enterprises in the Republic of North Macedonia primarily motivate their employees through bonuses and rewards (about 66% of firms) and additional training (almost 45% of the firms). Firms do not believe that they can motivate their employees through transparent and clear rules and requirements for increased salaries. In fact, this is the least-used motivational technique used by firms (Figure 1-7).

Employee participation is not only a considerable motivational factor but also enables skill utilization. As such, this represents a major determinant of skill use in a firm. About 55% of firms indicate that they respect their employees' opinion yet less than 47% include their employees in new product or service development, and only 27% of firms include them in establishing working procedures. Such results clearly point to the need to introduce a larger variety of both motivational methods and wider employee participation in the decision-making process.

Conclusion

The success of the recruitment process, i.e., the quantity and quality of applicants, as well as employee training investments determine the level of skills in a firm. Firms should improve their recruitment process and training investments so they can build a skills base that is aligned with their current and future needs and turn their human capital into a competitive advantage. In this regard, firms should try to implement more

innovative recruitment methods and channels to increase their applicant pool and improve their organizational image on the labour market. A proactive and targeted approach to training and extensive training is also required as a way to create a competitive base of cutting-edge multidisciplinary skills within firms.

Firms can, however, capitalize on their employees' skills only if they create an environment that supports the full utilization of these skills. Motivational methods and employee participation are some of the most serious impediments to SMEs fully utilizing their workforce skills. The lack of mechanisms that would enable the full utilization of employee skills, such as insufficient or inadequate motivational methods or low levels of employee participation, can generate several negative implications. Not only do they demean the effects of the recruitment and training process but also undermine the firm's growth and impede its market competitiveness. Therefore, small and medium enterprises in North Macedonia should create an organizational context that would improve both motivational levels of their employees and employee participation in the decision-making process of their firms more vigorously. Firms should set different organizational mechanisms (such as job enrichment, team working, ad hoc groups, etc.) to increase employee autonomy in performing job-related activities and increase employee participation in business processes, product or service development, quality improvement, and alike.

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CHAPTER TWO

KEY NON-STANDARDIZED FINANCIAL METRICS BASED ON THE INCOME STATEMENT FOR MEASURING HOTEL PERFORMANCE AND THE POSSIBILITY OF FRAUD

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Abstract

Non-standardized metrics are one of the key metrics that can have a big impact on the operations of hotel companies. In today's environment, it is necessary to identify the parameters to properly determine the direction of movement of hotel companies, given that their performance depends on the success of their business. The information contained in financial statements is of great importance to decision makers and enables them to create direction for the company's future operation. Standardized metrics do not have the flexibility required by today's environment and cannot be properly subject to business policy changes so non-standardized metrics are created that serve managers as a tool when measuring a company's financial performance. For a company to survive in today's market, it must adapt to changes and manage costs in an adequate way. The aim of this paper is to identify key non-standardized financial metrics that can serve hotel companies in measuring their business performances. The subject of the paper is the financial reports of hotel companies that operate in the Serbian market and are listed on the Belgrade Stock

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Exchange. The research is based on the application of the case study method and the content analysis method.

Keywords: *non-standardized financial measures, hotel companies, financial reports, fraud*

1. Introduction

The goal of financial reporting is to provide useful information to business decision makers, and such information is a central part of market information.³ Relevant financial information is information that distinguishes between the decisions of the users of financial statements. If it was not available, users would probably make other decisions.⁴ The information must have a confirmatory or predictive value in order to be able to influence the decisions of the financial statement users. One can speak about the confirmatory value of information if it indicates the correctness of previous assessments in the sense of confirming or denying them. The predictive value of information exists if it can be used to predict the future. An important aspect of relevance, which is specific to each entity, is significance (materiality), which depends on the nature or size of the item in the context of the entity's financial statements. Information is considered significant if its omission or misrepresentation could affect economic decisions. The data from the financial statements do not allow companies to measure their performance in relation to the market; therefore, market parameters must be included in order to determine the complete position of the company.

In this regard, the financial statements provide an insight into the operations to various stakeholders. Among the most important group of stakeholders, in addition to customers, suppliers, and regulatory bodies, are shareholders.⁵ The company's shareholders are most interested in the predictive values of the information in the financial statements and seek to use that information to increase the value of the company as a whole. The managers of the companies have an opposite orientation because they are

³ Knežević, Snežana. *Finansijsko izveštavanje*. Beograd: Samostalno izdanje autora. 2019.

⁴ Škarić-Jovanović, Kata and Dejan Spasić. *Specijalni bilansi*. Beograd: Centar za izdavačku delatnost, Ekonomski fakultet u Beogradu. 2014.

⁵ Altman, Edward I. "Financial ratios, discriminant analysis and the prediction of corporate bankruptcy." *The Journal of Finance* 23, no. 4 (1968): 589–609.